

Statement of Shaun Donnelly
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U.S. Department of State
to the U.S.-China Commission's Public Hearing on
WTO Compliance and Sectoral Issues
January 18, 9:30-11:00 a.m.

Thank you for inviting me today. I appreciate the opportunity to provide the State Department perspective on issues surrounding China's WTO compliance.

Overview

The State Department, along with the entire U.S. Government, warmly welcomed the recent accessions to the World Trade Organization of the People's Republic of China and Taiwan. The agreement to admit the People's Republic of China was the culmination of a 15-year process of negotiations between China and other WTO members and 23 years of economic reform in China. It was a landmark agreement that holds significant benefits for U.S. national interests, as well as those of China and the world community.

In terms of U.S. economic interests, the measures that China has agreed to will create long-awaited opportunities for U.S. exporters and investors in the world's fifth largest trading entity. By entering the WTO, China has agreed to make one-way concessions to open its markets and bind itself to a rules-based, market-oriented trading system. To become eligible for WTO membership, China had to negotiate bilaterally with WTO members on increased market access for industrial goods, agricultural products, and services and on improved protection for intellectual property rights. China also negotiated a multilateral accession package detailing how it would meet fundamental WTO principles and obligations. While I won't go into detail on the package itself, I want to underscore the expected results of it: more export and investment opportunities for U.S. companies and ultimately more jobs for Americans farmers and workers.

I also want to highlight the positive impact that changes inherent in WTO membership will have on the Chinese economy and society. China's commitments to provide

transparency and improve its rule of law will not only benefit foreign companies but also the Chinese private sector. This is the most vibrant part of China's economy but one that has often felt disadvantaged in relation to the state-owned companies. A stronger private sector in China means more job creation, higher incomes and a larger market for U.S. exports. And it means that the influence of state-owned companies on the economy and society will decline.

Of course, U.S. objectives in our relationship with China go beyond economic interests, and we believe China's accession to the WTO also advances U.S. interests in other critical areas, including strengthening of rule of law and civil society and giving China a greater stake in enhancing regional and global stability.

China has agreed to implement measures that will open, liberalize and make more transparent and predictable its economy and administration. It is required to make broad reforms in transparency, provide for notice and comment, and apply laws and judicial review uniformly. Because of China's adoption of more transparent rulemaking procedures, ordinary Chinese citizens will become more aware of their legal rights and will be able to participate in making the rules. Taking advantage of this change, Chinese securities companies, as well as their foreign counterparts, recently submitted comments on securities laws. Thus, enhanced transparency and predictability, while helping U.S. business, also contribute to promoting rule of law, the growth of civil society, and enhanced personal freedoms - goals central to our broader China policy.

In addition, China's WTO accession integrates it more firmly into the Pacific and world economies and gives China a greater stake in regional and global stability. This, in turn, enhances prospects for peace and prosperity in the Asia-Pacific region, a critical area for U.S. interests. We are also hopeful that China's further integration into the international system will contribute to more constructive and cooperative bilateral relations with the United States and other international players.

Views on China's Implementation of its WTO commitments

The Department of State, along with the entire U.S. Government, attaches great importance to timely and

effective implementation by China of its WTO agreements. Based on our discussions with China's senior political leadership, we are confident that it too takes very seriously its commitments and is working hard to implement them.

That said, it is important to underscore the broad scope, complexity, and depth of changes that the Government of China must enact to meet these obligations. It must create or revise and enforce scores of laws and regulations in areas affecting everything from intellectual property rights to foreign investment to administrative procedures across the entire economy. For example, it issued over 20 important new trade-related laws and regulations in the two-week period following accession. In addition, it must train officials at all levels of the government and state-owned enterprises to alter their behavior, a huge undertaking to which it has begun devoting a tremendous effort. Thus, it will require a massive effort for China to comply with all the commitments it has undertaken as part of its WTO accession in a timely and thorough manner and for the United States to monitor and seek compliance with these commitments.

There will likely be bumps in the road to implementation for the Chinese Government. Government officials may have difficulty meeting deadlines for certain measures. Local officials initially may not be able to fully grasp the depth of changes needed. There may be pockets of resistance within China to full implementation of painful changes in areas like agricultural liberalization or intellectual property protection. Therefore, it is imperative that we remain vigilant and engaged to protect U.S. interests.

Recognizing this, the U.S. Government has worked diligently to establish a system for promoting maximum compliance. This involves a comprehensive interagency organization for monitoring China's compliance in Washington, China, and Geneva. At the center of our efforts is a newly-created interagency Trade Policy Staff Committee (TPSC) Subcommittee on China WTO Compliance. This committee, chaired by the Office of the U.S. Trade Representative and including representatives from the Departments of State, Commerce, Agriculture, and Treasury and many other agencies, is meeting on a monthly basis, with additional subgroup meetings. Our Missions in China

and Geneva will also play critical roles not only in monitoring but also in pressing China to fulfill all of its commitments. At all levels and locations, we will diligently seek to hold China to its obligations. The WTO itself provides access to new multilateral tools such as the Transitional Review Mechanism and dispute settlement, in addition to bilateral efforts, to resolve trade problems.

The Contribution of the Department of State

While my colleagues in USTR and Commerce will address in more detail broader U.S. Government monitoring efforts, I would like to focus on the State Department's role in encouraging China to fully implement its commitments. As you know, the State Department plays a central role in coordinating our overall China policy and will ensure that WTO implementation remains a high priority in our bilateral discussions with representatives of the Chinese Government. State Department principals and staff will also continue to reach out to the U.S. business community and other constituencies to hear their concerns, coordinate with other diplomatic missions, and be active participants in the TPSC subcommittee and other interagency discussions.

Our Embassy in Beijing and our Consulates throughout China and Hong Kong are also playing a critical role on the front lines in the WTO compliance effort. Ambassador Randt has made China WTO implementation one of the top priorities for his Mission. In Beijing, the Embassy has established a WTO Implementation Coordination Committee chaired by the Economic Minister to coordinate WTO monitoring, compliance, technical assistance, and outreach efforts of State Department Economic, Environment, Science and Technology and Public Affairs officers, as well as Foreign Commercial Service officers, Foreign Agricultural Service officers and Customs attaches. This group is responsible for tracking and analyzing changes in laws and regulations, maintaining regular dialogue with government officials on WTO commitments, undertaking outreach programs for Chinese government and other audiences, and meeting regularly with members of the private sector and other diplomatic missions to assess progress and identify possible problems. The Embassy has also formed a special IPR working group to monitor China's WTO intellectual property legislation and enforcement and to conduct outreach.

Our consulates in Shanghai, Guangzhou, Chengdu, Shenyang and Hong Kong are also key players in WTO compliance efforts. The outstanding information-gathering and advocacy work done by these Consulates is critical to our efforts because China's greatest implementation challenge will be at the local and regional levels.

To prepare itself for the important responsibility of WTO compliance, the Mission is enhancing training of personnel from the Embassy and Consulates, including holding in-country training programs in conjunction with the National Foreign Affairs Training Center and Office of the U.S. Trade Representative.

I want to underscore how proud we are of our State Department officers in China and Hong Kong. Working in posts that are already extremely busy, they have taken on enormous new responsibilities and are doing an outstanding job. Let me share with you a couple of examples of the work being done by State Department staff in China.

- Consulate Shanghai, in cooperation with the U.S.-China Business Council, has organized a 10-part digital video conference (DVC) series on the Implications of China's WTO Accession. This facilitates dialogue between U.S. experts and a group of one hundred officials and state-owned enterprise managers in Shanghai selected to become WTO experts and policy advisors for their respective agencies.
- The Embassy's Economic Section in Beijing designed and co-hosted with the Chinese Government a well-received course that explained WTO compliance issues to Chinese government officials and academics. It is also developing a Chinese-language online course to teach basic WTO principles. Once the course content is finished, a U.S. company has agreed to support its maintenance.
- Finally, I want to highlight the innovative WTO capacity-building programs being conducted by our public affairs staff throughout China and Hong Kong. These includes furnishing books for a law library for the Chinese government legal department charged with interpreting China's WTO commitments, translating materials recommended by the WTO Secretariat training office, constructing an improved website, ensuring maximum public

outreach for visiting Washington officials, effectively using international and voluntary visitor programs, and making small grants to seed capacity-building programs.

State Department staff at our Mission in Geneva are also actively involved in China WTO compliance efforts, and we will call on staff in other Embassies abroad as needed.

Impact on Other Priorities in our Relationship

As I mentioned up front, we believe China's WTO membership will contribute to and complement the achievement of other U.S. priority objectives in our relationship with China and internationally. In the economic area, the President and Secretary were very pleased by their visits to Shanghai last October to take part in APEC meetings and look forward to working with China to strengthen this organization's work on liberalizing trade and promoting enhanced cooperation in the region. We believe APEC provides a useful forum to encourage further liberalization by China.

While we realize that in the short term China will be focused on changing its own policies to meet its WTO obligations, we are also hopeful that it will play a positive role within the WTO in the next round of WTO negotiations launched at Doha in November. Issues like further liberalizing agricultural trade and services will be difficult in this upcoming round, and China's support will be helpful. For example, the U.S. and Chinese governments share an interest in limiting agricultural subsidies and may be able to cooperate in this area. Hopefully, the critical role of trade liberalization in China's recent economic success will not be lost on other developing countries. As the first meeting of the WTO New Round Trade Negotiation Committee (TNC), scheduled for January 28, approaches, we should begin to see signs of China's New Round strategy, and how it will wield influence with other WTO Members.

Finally, given the importance of agricultural biotechnology to our economy and to international food security, we look to engage the Chinese in a constructive dialogue on a science-based, rules-based approach to agricultural biotechnology products.

In conclusion, I want to reiterate the President's call for a relationship with China that is candid, constructive, and cooperative. We will not hesitate to address directly our differences, including those related to trade, and we will seek to build on our common interests. While we have a lot of hard work ahead, we believe that China's accession to the WTO will be good for U.S. interests, for U.S. business, for U.S. workers, farmers and consumers and for U.S. broad national interest. Thank you.